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INFO RUEHRL/AMEMBASSY BERLIN 1586
RUEHKV/AMEMBASSY KYIV 0019
RUEHLO/AMEMBASSY LONDON 2339
RUEHMO/AMEMBASSY MOSCOW 2702
RUEHOT/AMEMBASSY OTTAWA 9767
RUEHFR/AMEMBASSY PARIS 6414
RUEHRO/AMEMBASSY ROME 2239
RUEHOK/AMCONSUL OSAKA KOBE 6041
RUEHFK/AMCONSUL FUKUOKA 2254
RUEHKS/AMCONSUL SAPPORO 2812
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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000269

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SUBJECT: (C-AL8-02662) ENERGY SECURITY: GOJ OFFICIALS'
VIEWS ON ATTRACTIVENESS OF RUSSIAN OIL AND GAS

REF: 08 TOKYO 2733

Classified By: EMIN Robert F. Cekuta for Reason 1.4 (b),(d)

11. (C) SUMMARY: Japanese officials and businesspeople describe relations with Russian energy suppliers as businesslike. METI officials and others report Russia's assertiveness in oil and gas disputes and its military action in Georgia have not fundamentally changed this attitude. Japanese policymakers' thinking on energy engagement with Russia is based on (1) the relative stability and proximity of Russian energy sources, (2) diversification from Japan's current 90% dependence on Middle East oil, (3) Japanese perceptions of Gazprom as businesslike and professional, and (4) a sense that the Japanese market is too important for Russia to jeopardize relations. END SUMMARY.

SEEING RUSSIA AS A STABLE PARTNER

12. (C) Senior GOJ officials do not expect a change in Japanese engagement with Russia on energy despite the recent gas dispute between Russia and Ukraine. Shin Hosaka, Ministry of Economy, Trade and Industry's Agency for Natural Resources and Energy (ANRE), Oil and Gas Director told emboff ANRE followed the dispute very closely, but did not believe Gazprom's demand that transfer prices to Ukraine reflect market prices was unreasonable or its actions unexpected. Hosaka did state concern about the "bullying stance" of Russian negotiators, saying he understood Gazprom demanded a price of \$300/thousand cubic meters after Ukraine balked at an initial, lower Russian offer of \$240/thousand cubic meters.

13. (C) Japan's business discussions with Gazprom remain professional. Hosaka regularly attends the monthly meetings on the Sakhalin II project between ANRE Natural Resource and Fuel Department Director General Shinsuke Kitagawa and Gazprom Deputy Chairman Alexander Georgievich Ananenko. Hosaka characterized the dialogue as consistently smooth and productive. This impression mirrors those of high-level Mitsui officials, who in past meetings with emboffs said Gazprom's majority stake in Sakhalin II provides stability (ref A).

A DEEPENING RELATIONSHIP

14. (C) Japan views Russia as a partner in its energy security strategy. Russia supplies approximately four percent of Japan's crude oil imports, and energy relations will enter a new phase in Spring 2009 when LNG shipments commence to Japan from Sakhalin II. Japan expects to receive eight million tons/year of LNG from Sakhalin II. Mitsui and Mitsubishi hold a combined 22.5% share in the \$20 billion project, which was financed in part with \$5.3 billion from the Japan Bank for International Cooperation (JBIC) and a group of international banks.

15. (C) Hosaka noted LNG from Sakhalin II is important to Japanese utility companies. He cited Indonesia as an example of the supply instability that faces Japanese customers; Indonesia plans to reduce its exports to Japan from 10 million tons to 3 million tons by 2010. Japanese industry, therefore, expects Russia to play a more important role in Japan's LNG market. An official from Tokyo Gas, Japan's largest gas utility, projects Russian gas will account for six to eight percent of Japan's LNG imports on a contract basis in 2010, making Russia Japan's fifth largest supplier of LNG. (Comment: One aspect of the "energy nationalism" problem cited by many Japanese government and business people is China's push for oil, gas, and other resources in Africa and elsewhere. End Comment.)

DIVERSITY INSULATES JAPAN

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16. (C) Goichi Komori, Senior Analyst for Russia at the Institute of Energy Economics Japan (the IEEJ, which is funded by METI and provides the data and analysis that often shapes METI strategic plans), and other Japanese energy experts believe Japan is better insulated than European markets from Russian energy politics. Komori argues this situation results from structural differences between the European and Japanese energy supply networks. Russia ships fuels to Japan on long-term contracts, which he says insulates Japan from the seasonal pipeline politics Russia's European customers confront. In the event Russia were to try this negotiating ploy with Japan, Komori asserts Japanese buyers would have sufficient lead time to turn to other markets to counter the kind of shortfall that confronted Europe in early January. Hosaka said Tokyo also views Russia as a strategic counterweight to volatility in Middle East and Southeast Asia energy supplies. (Note: Japan gets 90% of its crude oil and 25% of its natural gas from the Middle East. End Note.)

OPEC FOR NATURAL GAS UNLIKELY

17. (C) Hosaka expressed little concern about Russia's push for greater coordination among LNG suppliers at the Gas Exporting Countries Forum in December 2008: a proposed OPEC for natural gas. He said Russian competition with Iran for European markets undermines developing the sort of global LNG price cooperative that might affect Japan. Rivalry between Gazprom's South Stream pipeline and the Nabucco pipeline that would bring gas to European markets from Azerbaijan and potentially Qatar, Iran, and Iraq illustrates the lack of cooperation on natural gas, according to Hosaka. The IEEJ's Komori and Reiji Fujikawa, Corporate Planning Department Manager for the Japan Gas Association, which lobbies the GOJ on behalf of industry, agree with Hosaka's analysis and forecast little impact on global LNG markets if the Russian plan were to materialize.

18. (C) Hosaka also sees Russian interest in Japanese technical expertise in helping develop fields in the Russian Far East as a potential area for future energy cooperation. The GOJ's Japan Oil, Gas and Metals Exploration Corporation (JOGMEC) has agreements to explore jointly two oil and gas

blocks in Siberia. Hosaka said Russian officials and Japanese companies currently have differing expectations regarding these projects, with the latter interested primarily in bringing LNG and crude oil to Japan rather than investing in downstream operations in Russia. Hirokazu Tada, the JOGMEC's Director for project development in Eastern Siberia, separately told emboff tight credit due to the global economic slowdown has reduced Japanese and Russian companies' interest in high-risk, long-term exploration and production projects. The Japan Gas Association's Fujikawa said Japanese firms do not have a strong interest in investing in Russia's downstream operations. However, they may be more inclined to do so if Sakhalin II is a success.

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